Chapter 8 Questions

Multiple Choice

1. When customers make purchases with a national credit card, the retailer
a. is responsible for maintaining customer accounts.
b. is not involved in the collection process.
c. absorbs any losses from uncollectible accounts.
d. receives cash equal to the full price of the merchandise sold from the credit card company.

2. The two methods of accounting for uncollectible accounts are the direct write-off method and the
a. Accrual Method
b. Net Realizable Method
c. Bad Debt Method
d. Allowance Method

3. A 90-day note dated April 20 would mature on
a. July 19
b. July 21
c. July 20
d. July 18

4. Under the direct write-off method of accounting for uncollectible accounts, Bad Debt Expense is debited
a. when a credit sale is past due.
b. at the end of each accounting period.
c. whenever a pre-determined amount of credit sales have been made.
d. when an account is determined to be uncollectible.

5. An aging of a company's accounts receivable indicates that $6,000 are estimated to be uncollectible. If Allowance for Doubtful Accounts has a $2,000 debit balance, the adjustment to record bad debts for the period will require a
a. debit to Bad Debt Expense for $8,000.
b. debit to Allowance for Doubtful Accounts for $8,000.
c. debit to Bad Debt Expense for $4,000.
d. credit to Allowance for Doubtful Accounts for $4,000.

6. The face value of a note refers to the amount
a. that can be received if sold to a factor.
b. borrowed plus interest received at maturity from the maker.
c. at which the note receivable is recorded.
d. remaining after a service charge has been deducted.

7. The interest on a $10,000, 9%, 90-day note receivable is
a. $225.
b. $900.
c. $75.
d. $150.

8. Doane Company receives a $10,000, 3-month, 6% promissory note from Ray Company in settlement of an open accounts receivable. What entry will Doane Company make upon receiving the note?

a.	Notes Receivable	10,150	
	Accounts Receivable—Ray Company		10,150

b.	Notes Receivable	10,150	
	Accounts Receivable—Ray Company		10,000
	Interest Revenue		150

c.	Notes Receivable	10,000	
	Interest Receivable	150	
	Accounts Receivable—Ray Company		10,000
	Interest Revenue		150

d.	Notes Receivable	10,000	
	Accounts Receivable—Ray Company		10,000

9. A debit balance in the Allowance for Doubtful Accounts
a. is the normal balance for that account.
b. indicates that actual bad debt write-offs have exceeded previous provisions for bad debts.
c. indicates that actual bad debt write-offs have been less than what was estimated.
d. cannot occur if the percentage of receivables method of estimating bad debts is used.

10. When the allowance method of accounting for uncollectible accounts is used, Bad Debt Expense is recorded
a. in the year after the credit sale is made.
b. in the same year as the credit sale.
c. as each credit sale is made.
d. when an account is written off as uncollectible.

11. To record estimated uncollectible accounts using the allowance method, the adjusting entry would be a
a. debit to Accounts Receivable and a credit to Allowance for Doubtful Accounts.
b. debit to Bad Debt Expense and a credit to Allowance for Doubtful Accounts.
c. debit to Allowance for Doubtful Accounts and a credit to Accounts Receivable.
d. debit to Loss on Credit Sales and a credit to Accounts Receivable.

12. Using the percentage-of-receivables method for recording bad debt expense, estimated uncollectible accounts are $45,000. If the balance of the Allowance for Doubtful Accounts is $6,000 credit before adjustment, what is the amount of bad debt expense for that period?
a. $45,000
b. $39,000
c. $51,000
d. $6,000

13. Using the percentage-of-receivables method for recording bad debt expense, estimated uncollectible accounts are $45,000. If the balance of the Allowance for Doubtful Accounts is $6,000 debit before adjustment, what is the balance after adjustment?
a. $45,000
b. $51,000
c. $39,000
d. $6,000

14. Non-trade receivables should be reported separately from trade receivables. Why is this statement either true or false?
a. It is true because trade receivables are current assets and non-trade receivables are long term.
b. It is false because all current receivables must be grouped together in one account.
c. It is true because non-trade receivables do not result from business operations and should not be included with accounts receivable.
d. It is false because management can decide how to report receivables.

15. In 20XX Wilkinson Company had net credit sales of $2,250,000. On January 1, 20XX, Allowance for Doubtful Accounts had a credit balance of $54,000. During 20XX, $90,000 of uncollectible accounts receivable were written off. Past experience indicates that the allowance should be 10% of the balance in receivables (percentage of receivables basis). If the accounts receivable balance at December 31 was $600,000, what is the required adjustment to the Allowance for Doubtful Accounts at December 31, 20XX?
a. $ 60,000
b. $ 25,000
c. $ 96,000
d. $ 90,000

EXERCISES

1. Strickman Company uses the allowance method for estimating uncollectible accounts. Prepare journal entries to record the following transactions:

January 5 Sold merchandise to Sue Land for $1,800, terms n/15.
April 15 Received $400 from Sue Land on account.
August 21 Wrote off as uncollectible the balance of the Sue Land account when she declared bankruptcy.
October 5 Unexpectedly received a check for $650 from Sue Land.

	Date	**Debit**	**Credit**

2. Compute the maturity value as indicated for each of the following notes receivable.

A. A $9,000, 6%, 3-month note dated July 20.

Maturity value $____________.

B. A $16,000, 9%, 150-day note dated August 5.

Maturity value $____________.

3. Merry Co. sells Christmas angels. Merry determines that at the end of December, they have the following aging schedule of Accounts Receivable:

Customer	**Total**			**Number of Days Past Due**		
		Not yet due	**1–30**	**31–60**	**61–90**	**Over 90**
K. Brant	$500		$300	$200		
D. Eaton	300	100			200	
S Klein	150			50		100
C. Sheen	200	200				
	?	**300**	**300**	**250**	**200**	**100**
% uncollectible		1%	5%	10%	25%	50%
Total Estimated Uncollectible Amounts	?	?	?	?	?	?

(a) Compute the total estimated uncollectible amounts.

(b) Compute the net receivables based on the above information at the end of December (There was no beginning balance in the Allowance for Doubtful Accounts).

4. The December 31, 20XX balance sheet of the Kramer Company had Accounts Receivable of $650,000 and a credit balance in Allowance for Doubtful Accounts of $33,000. During 2017, the following transactions occurred: sales on account $1,550,000; sales returns and allowances, $100,000; collections from customers, $1,250,000; accounts written off, $35,000; previously written off accounts of $8,000 were collected.

(a) Journalize the 20XX transactions.

	Date	Debit	Credit

(b) If the company uses the percentage of receivables basis to estimate bad debt expense and determines that uncollectible accounts are expected to be 6% of accounts receivable, what is the adjusting entry at December 31, 20XX?

5. Prepare journal entries to record the following transactions entered into by the Merando Company:

20X1

June 1 Received a $10,000, 6%, 1-year note from Dan Gore as full payment on his account.
Nov. 1 Sold merchandise on account to Barlow, Inc., for $14,000, terms 2/10, n/30.
Nov. 5 Barlow, Inc., returned merchandise worth $1,000.
Nov. 9 Received payment in full from Barlow, Inc.
Dec. 31 Accrued interest on Gore's note.

20X2

June 1 Dan Gore honored his promissory note by sending the face amount plus interest.

	Date	Debit	Credit

6. Erickson Company had a $300 credit balance in Allowance for Doubtful Accounts at December 31, 20XX, before the current year's provision for uncollectible accounts. An aging of the accounts receivable revealed the following:

		Estimated Percentage Uncollectible
Current Accounts	$170,000	1%
1–30 days past due	15,000	3%
31–60 days past due	12,000	6%
61–90 days past due	5,000	15%
Over 90 days past due	9,000	30%
Total Accounts Receivable	$211,000	

(a) Prepare the adjusting entry on December 31, 20XX, to recognize bad debts expense.

	Date	Debit	Credit

(b) Assume the same facts as above except that the Allowance for Doubtful Accounts account had a $300 debit balance before the current year's provision for uncollectible accounts. Prepare the adjusting entry for the current year's provision for uncollectible accounts.

	Date	Debit	Credit

Chapter 8 Solutions

Multiple Choice Solutions

1. **B**
2. **D**
3. **A**
4. **D**
5. **A**
6. **C**
7. **A**
8. **D**
9. **B**
10. **B**
11. **B**
12. **B**
13. **A**
14. **C**
15. **C**

Exercise Solutions

1.

	Date	Debit	Credit
Accounts Receivable – S. Land	**Jan. 5**	1,800	
Sales Revenue			1,800
Cash	**Apr. 15**	400	
Accounts Receivable- S. Land			400
Allowance for Doubtful Accounts	**Aug. 21**	1,400	
Accounts Receivable- S. Land			1,400
Accounts Receivable – S. Land	**Oct. 5**	650	
Allowance for Doubtful Accounts			650
Cash	**Oct. 5**	650	
Accounts Receivable- S. Land			650

Chapter 8 Solutions

Exercise Solutions (Cont.)

2.

A. **Maturity value: $9,135**

Interest = $9,000 x 6% x (3/12) = $135

$135 + $9,000 = **$9,135** (Face val. + (Face val. × 6% × 3/12)

B. **Maturity value: $16,600**

Interest = $16,000 x 9% x (150/360) = $600

$600 + $16,000 = **$16,600** (Face val. + (Face val. × 9% × 150/360)

3.

Customer	Total	Not yet due	Number of Days Past Due			
			1–30	**31–60**	**61–90**	**Over 90**
K. Brant	$500		$300	$200		
D. Eaton	300	100			200	
S Klein	150			50		100
C. Sheen	200	200				
	1,150	300	300	250	200	100
% uncollectible		1%	5%	10%	25%	50%
Total Estimated Uncollectible Amounts	**(a) $143**	**$3**	**$15**	**$25**	**$ 50**	**$50**

(b) $1,150 – $143 = **$1,007**

Chapter 8 Solutions

Exercise Solutions (Cont.)

4. (a)

	Debit	Credit
Accounts Receivable	1,550,000	
Sales Revenue		1,550,000
(To record credit sales)		
Sales Returns and Allowances	100,000	
Accounts Receivable		100,000
(To record credits to customers)		
Cash	1,250,000	
Accounts Receivable		1,250,000
(To record collection of receivables)		
Allowance for Doubtful Accounts	35,000	
Accounts Receivable		35,000
(To write off specific accounts)		
Accounts Receivable	8,000	
Allowance for Doubtful Accounts		8,000
(To reverse write-off of account)		
Cash	8,000	
Accounts Receivable		8,000
(To record collection of account)		

Chapter 8 Solutions

Exercise Solutions (Cont.)

(b.)

Percentage of receivables basis:

Accounts Receivable

Bal.	650,000	100,000
	1,550,000	1,250,000
	8,000	35,000
		8,000
Bal.	**815,000**	

Allowance For Doubtful Accounts

35,000	Bal.	33,000
		8,000
	Bal.	**6,000**

Required balance ($815,000 × .06)	$48,900
Balance before adjustment	6,000
Adjustment required	**$42,900**

Dec. 31	Bad Debt Expense	42,900	
	Allowance for Doubtful Accounts		42,900
	((A/R end. bal. × 6%) – ADA end. bal.)		

5.

	Date	Debit	Credit
Notes Receivable	**Jun. 1**	10,000	
Accounts Receivable—D. Gore	**20X1**		10,000
Accounts Receivable—Barlow, Inc.	**Nov. 1**	14,000	
Sales Revenue	**20X1**		14,000
Sales Returns and Allowances	**Nov. 5**	1,000	
Accounts Receivable—Barlow, Inc.	**20X1**		1,000
Cash	**Nov. 9**	12,740	
Sales Discounts **($13,000 x 0.02)**	**20X1**	260	
Accounts Receivable—Barlow, Inc. **(sales – ret.) × (1 – .02)**			13,000
Interest Receivable	**Dec. 31**	350	
Interest Revenue **($10,000 x 6% x (7 ÷ 12) = $350)**	**20X1**		350
Cash	**Jun. 1**	10,600	
Notes Receivable	**20X2**		10,000
Interest Receivable			350
Interest Revenue **($10,000 x 6% x (5 ÷ 12) = $250)**			250

6.

		Estimated Percentage Uncollectible	Estimated Uncollectible
Current Accounts	$170,000	1%	$1,700
1–30 days past due	15,000	3%	450
31–60 days past due	12,000	6%	720
61–90 days past due	5,000	15%	750
Over 90 days past due	9,000	30%	2,700
Total Accounts Receivable	$211,000		$6,320*

**(A/R amounts × est. uncoll. %)

		Debit	Credit
(a)	Bad Debt Expense	6,020	
	Allowance for Doubtful Accounts ($6,320 – $300)		6,020
	(To adjust the allowance account to total estimated uncollectible)		
	(Est. uncoll. amount – end. ADA bal.)		
(b)	Bad Debt Expense	6,620	
	Allowance for Doubtful Accounts ($6,320 + $300)		6,620
	(To adjust the allowance account to total estimated uncollectible)		